

Message Text

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AID-05 CIEP-01 SS-15 STR-04 TAR-01 TRSE-00 USIA-06

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DRAFTED BY OES/NET:MBKRATZER

APPROVED BY OES/NET:MBKRATZER

S/P - J. KAHAN

C- J. KELLY

ERDA - J. HELFRICH

S/S:CABORG

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AMEMBASSY PARIS IMMEDIATE

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E.O. 11652: N/A

TAGS: TGEN, ENRG, AU

SUBJECT: URANIUM ENRICHMENT DEVELOPMENTS

REF: STATE 145886

1. REFTEL PROVIDED BACKGROUND INFO ON IMMINENT PRESIDENTIAL ANNOUNCEMENT CONCERNING EXPANSION OF US URANIUM ENRICHMENT CAPACITY. FURTHER DETAILS OF THIS IMPORTANT DECISION ARE BEING PROVIDED ADDRESSEE POSTS IN SEPTEL, WHICH WILL BE DISPATCHED AS SOON AS EMBARGO TIME FOR RELEASE TO HOST GOVERNMENTS HAS BEEN ESTABLISHED. PURPOSE OF THIS MESSAGE IS TO PROVIDE BACKGROUND FOR CERTAIN RELATED BUT SEPARATE ACTIONS AFFECTING U.S. ENRICHED URANIUM POLICY, WHICH MAY BE DRAWN UPON IN RESPONSE TO HOST COUNTRY INQUIRIES.

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2. THE ACTIONS COVERED BY THIS MESSAGE ARE: (A) AN EXPANDED PLAN WHICH ALLOWS CUSTOMERS, DOMESTIC OR FOREIGN, HOLDING FIRM ENRICHMENT SERVICE CONTRACTS TO MODIFY OR TERMINATE THESE CONTRACTS WITHOUT COST. THIS IS THE SO-CALLED "OPEN SEASON"; (B) A PERIODIC INCREASE IN ERDA'S ESTABLISHED CHARGES FOR URANIUM ENRICHMENT DUE TO ESCALATION IN THE COSTS FOR POWER AND LABOR AT ERDA'S EXISTING GASEOUS DIFFUSION PLANTS; AND (C) INTRODUCTION OF LEGISLATION, AND PROPOSED IMPLEMENTING ACTIONS, WHICH WILL ENABLE ERDA TO ESTABLISH URANIUM ENRICHMENT CHARGES ON A COMMERCIAL BASIS, RATHER THAN ON THE PRESENT BASIS OF GOVERNMENT COSTS. THESE ACTIONS ARE DESCRIBED IN MORE DETAIL IN THE FOLLOWING PARAS.

3. "OPEN SEASON": ERDA'S ANNOUNCEMENT OF AN "OPEN SEASON" FOR ENRICHMENT CONTRACT CHARGES OR MODIFICATIONS WAS ANNOUNCED ON JUNE 19, 1975. (COPIES OF ANNOUNCEMENT HAVE BEEN MAILED TO ALL ENRICHING SERVICES CUSTOMERS AND TO APPROPRIATE EMBASSIES.) UNDER THIS PROGRAM, FOREIGN OR DOMESTIC HOLDERS OF FIRM CONTRACTS WILL BE ABLE, THROUGH NOTIFICATION TO ERDA BY AUGUST 18, 1975, TO TERMINATE THESE CONTRACTS WITHOUT COST. ADVANCE PAYMENTS MADE UNDER THE CONTRACTS IN FY 1974 AND 1975 WILL BE REFUNDED IN FULL IN FY 1976 WHEN APPROPRIATIONS BECOME AVAILABLE FOR THIS. IN THE MEANTIME, FY 1975 ADVANCE PAYMENTS MUST BE MADE, EVEN IF CONTRACT TERMINATION IS ELECTED. CUSTOMERS TERMINATING CONTRACTS AFTER AUGUST 18, 1975 WILL BE SUBJECT TO NORMAL TERMINATION CHARGES. THE PROGRAM ALSO ALLOWS CONTRACT HOLDERS TO MAKE A ONE-TIME ADJUSTMENT OF THEIR CONTRACT SEPARATIVE WORK COMMITMENTS, WITHOUT COST OR TERMINATION CHARGES. THE ADJUSTMENT INCLUDES QUANTITY, SCHEDULE AND TIMING OF ENRICHING SERVICES DELIVERIES. CUSTOMERS CHOOSING THIS OPTION MUST DO SO BY AUGUST 18, 1975.

4. DETAILED INSTRUCTIONS TO CONTRACT HOLDERS WILL BE PROVIDED DIRECTLY BY ERDA AND IT IS NOT THE INTENTION OF THIS MESSAGE THAT POSTS BECOME INVOLVED IN ANY NEGOTIATIONS INVOLVING EXERCISE OF THE OPTIONS. RATHER,
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THIS MESSAGE IS TO PROVIDE BACKGROUND INFO WHICH RELATES THIS ERDA ACTION TO OVERALL US ENRICHMENT POLICY. THE OPEN SEASON WILL BENEFIT FOREIGN CUSTOMERS IN TWO IMPORTANT WAYS: FIRST, FOR THOSE FOREIGN CUSTOMERS HOLDING FIRM FIXED COMMITMENT ENRICHMENT CONTRACTS, IT WILL ENABLE CANCELLATION OR ADJUSTMENT WITHOUT CHARGE SO AS TO TAKE INTO ACCOUNT ANY DEFERRAL OR CANCELLATION IN NUCLEAR POWER PROJECTS COVERED BY THE CONTRACTS. SECOND, TO THE EXTENT THAT FULL CONTRACT CANCELLATIONS TAKE PLACE, EITHER DOMESTICALLY OR ABROAD, THE RESULTANT URANIUM ENRICHMENT CAPACITY FREED-UP WILL GIVE ERDA GREATER FLEXIBILITY IN MEETING FUTURE NEEDS OF OTHER PROJECTS WHICH COULD SERVE FOREIGN AS WELL AS DOMESTIC ENRICHMENT CUSTOMERS.

5. FYI: FOREIGN HOLDERS OF ERDA'S CONDITIONAL ENRICHMENT CONTRACTS MAY ENQUIRE WHETHER ENRICHMENT CAPACITY FREED-UP BY CONTRACT CANCELLATION UNDER OPEN SEASON WILL BE USED TO CONVERT CONDITIONAL CONTRACTS TO FIRM CONTRACTS. AT THE PRESENT TIME, THERE IS NO DEFINITE DECISION AS TO WHETHER THIS WILL BE DONE OR WHETHER CONDITIONAL MATERIAL WILL BE USED TO BUILD-UP ENRICHED URANIUM STOCKPILE, WHICH MUST HAVE ADEQUATE LEVEL TO PROVIDE

GOOD CUSTOMER SERVICE. MOREOVER, AS PRACTICAL MATTER, ERDA EXPECTS ONLY A SMALL NUMBER OF COMPLETE TERMINATIONS AND ALLOCATION OF THESE AMONG LARGE NUMBER OF CONDITIONAL CONTRACTS WOULD PRESENT SERIOUS DIFFICULTIES. END FYI. QUESTIONS OF THIS TYPE, THEREFORE, SHOULD BE ANSWERED NON-COMMITTALLY, POINTING OUT OVERALL BENEFITS OF PROGRAM TO FUTURE ENRICHMENT SUPPLY PROGRAM FOR FOREIGN AND DOMESTIC NEEDS. IT SHOULD ALSO BE POINTED OUT THAT PRESIDENTIAL DECISION ON NEW ENRICHMENT EXPANSION PROVIDES OVERALL SOLUTION TO PROBLEM OF CONDITIONAL CONTRACTS SINCE FIRM CONTRACTS COULD BE NEGOTIATED WITH PRIVATE ENRICHERS. ADDITIONALLY, IT SHOULD BE POINTED OUT THAT OPEN SEASON DOES NOT PRECLUDE DIRECT ARRANGEMENTS BETWEEN HOLDERS OF FIRM CONTRACTS TO TRANSFER THEIR COMMITMENTS TO CONDITIONAL CONTRACT HOLDERS ON AGREED TERMS. PROPOSALS FOR SUCH TRANSFERS WILL CONTINUE TO BE CONSIDERED BY ERDA ON CASE-BY-CASE BASIS.

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6. ENRICHMENT CHARGE ESCALATION: ERDA'S CHARGES FOR URANIUM ENRICHMENT SERVICES, WHICH ARE BASED ON FULL COSTS OF PRODUCTION TO THE GOVERNMENT, AND ARE SUBJECT TO ESCALATION AS THESE COSTS INCREASE. ELECTRIC POWER IS THE PRINCIPAL COST ELEMENT IN THE ENRICHMENT OF URANIUM BY THE GASEOUS DIFFUSION PROCESS, AND THE LARGE INCREASES IN POWER COST NECESSITATES AN INCREASE IN CHARGES FOR ENRICHING SERVICES. THESE CHARGES DEPEND ON WHETHER THE SERVICES ARE PROVIDED UNDER FIXED-COMMITMENT OR REQUIREMENTS-TYPE CONTRACTS. CHARGES UNDER FIXED COMMITMENT CONTRACTS, CURRENTLY \$42.10 WILL BE INCREASED ON AUGUST 20, 1975 TO \$53.35. CHARGES UNDER REQUIREMENTS-TYPE CONTRACTS, WHICH HAVE SPECIAL PROVISIONS ESTABLISHING CEILING PRICES, SUBJECT TO ESCALATION ON THE BASIS OF A FIXED FORMULA, ARE CURRENTLY \$47.80. THIS CHARGE WILL BE INCREASED ON DEC. 18, 1975 TO \$60.95 PER KG, OR TO THE CEILING CHARGE, WHICHEVER IS THE LESSER. THE CURRENT ESTIMATE OF THE CEILING CHARGE FOR THE PERIOD DEC. 18 TO DEC. 31, 1975 IS \$59.20.

7. CUSTOMERS ARE GENERALLY FAMILIAR WITH ERDA'S CHARGES,

AND THE NEED FOR PERIODIC READJUSTMENT TO REFLECT INCREASING COSTS. THESE INCREASES ARE, THEREFORE, NOT EXPECTED TO GIVE RISE TO ANY QUESTIONS OR COMPLAINTS. IF ANY SHOULD ARISE, EMBASSY SHOULD POINT OUT NEED TO INCREASE CHARGES IN LINE WITH COSTS AND FACT THAT ERDA'S CHARGES FOR ENRICHING SERVICES REPRESENT MOST STABLE ENERGY COSTS AVAILABLE. INCREASE WILL HAVE ALMOST INSIGNIFICANT EFFECT, ESTIMATED AT APPROXIMATELY

0.2 MILLS/PER KILOWATT HOUR, ON COSTS OF ELECTRIC POWER
GENERATION IN NUCLEAR PLANTS.

8. COMMERCIAL PRICING OF ENRICHMENT SERVICES: ERDA WILL
ANNOUNCE ON JUNE 25, 1975 THAT LEGISLATION IS BEING
SUBMITTED TO THE CONGRESS TO AUTHORIZE THE ESTABLISHMENT
OF A COMMERCIAL CHARGE FOR ENRICHING SERVICES FROM
GOVERNMENT PLANTS TO REPLACE CURRENT GOVERNMENT COST-
TYPE CHARGES. IMPLEMENTATION OF THIS NEW LEGISLATION,
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IF APPROVED, WILL RESULT IN INCREASE IN CHARGES TO
ABOUT \$76 PER KG OF SEPARATIVE WORK. HOLDERS OF
ENRICHED URANIUM CONTRACTS WITH EXISTING GOVERNMENT
PLANTS HAVE BEEN ON NOTICE FOR SOME TIME THAT THIS
STEP WOULD BE TAKEN. MOST SPECIFICALLY, INTENTION
TO SWITCH BASIS OF CHARGING WAS INCLUDED IN CON-
GRESSIONAL TESTIMONY OF THEN AEC CHAIRMAN
DR. DIXY LEE RAY OF AUG. 6, 1974, WHICH REVIEWED
US URANIUM ENRICHMENT POLICY AND RECEIVED WIDE DIS-
TRIBUTION DOMESTICALLY AND ABROAD. ACCORDINGLY, WE
ARE HOPEFUL THAT THERE WILL NOT BE WIDESPREAD DIS-
SATISFACTION OR COMPLAINTS OVER CHANGE IN US PRICING
BASIS AND RESULTING PRICE INCREASE.

9. RATIONALE FOR NEW PRICING BASIS, WHICH WE ALSO
BELIEVE WILL FIND GENERAL ACCEPTABILITY, IS THAT
CURRENT CHARGES FOR ENRICHING SERVICES DO NOT INCLUDE
ELEMENTS NORMALLY INCLUDED IN COMMERCIAL CHARGES,
SUCH AS TAXES, INSURANCE AND A RISK FACTOR. THESE
LOW CHARGES PUT NUCLEAR INDUSTRY ON UNREALISTIC
BASIS BY OFFERING FUEL FROM ERDA PLANTS AT LOWER
THAN COMMERCIAL RATES TO BE CHARGED BY PRIVATE US
ENRICHERS AND US COMPETITORS AND DO NOT GENERATE
GOVERNMENT REVENUES NEEDED TO ENSURE EXPANSION OF
CAPACITY. EVEN CONTEMPLATED PRIVATE ENRICHMENT
ARRANGEMENT WILL INVOLVE SUBSTANTIAL GOVERNMENTAL
COMMITMENTS AND LIABILITIES, WHICH CANNOT REALISTICALLY
BE ASSURED ON BASIS OF CURRENT "NO PROFIT" CHARGES.

10. EFFECT OF CHARGE INCREASE, FROM \$50 TO \$85 RANGE, ON
ELECTRIC POWER GENERATION COSTS IS MINIMAL. COST OF POWER
GENERATION AT BUS BAR WILL BE INCREASED BY ABOUT 0.5 MILLS
PER KILOWATT-HOUR, OR ABOUT 2.8. ANOTHER WAY OF EX-
PRESSING THIS IS THAT ENRICHED URANIUM STILL REFLECTS
BEST ENERGY BUY AVAILABLE, INCREASE IN ENRICHMENT
COSTS SINCE 1973 OIL EMBARGO, EVEN ASSUMING THE \$85
UPPER LIMIT, IS LESS THAN 140 PCT, FAR LESS THAN INCREASE
IN OIL OR OTHER ENERGY PRICES. KISSINGER

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